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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

THE CREDIT SITUATION

The headlines in most publications devoted to real estate or construction are still primarily about tight money. On February 20, 1956, the Government took four steps to ease the situation: 1. Lowered down payment requirements on houses appraised at less than $9,000 under the FHA mortgage insurance program. 2. Increased the borrowing capacity of savings and loan associations that are members of the Federal Home Loan Bank System from 10 to 12½% of their share capital. 3. Lowered the requirement to buy common stock in Fanny Mae from 2 to 1% of the mortgages it buys. 4. Decreased the discount from 92 to 94 on advance commitments by Fanny Mae to buy FHA or VA mortgages at a later date.

These efforts of the Government met with a varied response from builders and mortgage lenders. Some conceded that they were moves in the right direction, but that they were insufficient to take care of the present emergency. Others believed that they might have some ameliorating effect on the situation. Some believed that they were valueless.

Our own opinion is that the prime difficulty is the 4½% interest rate on FHA and VA mortgages. The FHA has the right, without Congressional action, to increase the rate to 5%, and this should be done immediately. The Veterans Administration cannot increase the rate on its guaranteed mortgages without an act of Congress, so this cannot be done until January, but should be done at that time. There is not sufficient money available for long-term commitments in the United States at the present time at 4½%. Any attempt to hold FHA's and VA's at this interest rate will divert a larger percentage of mortgages into conventional channels at higher rates.

The Administration is faced with quite a dilemma. It could continue the easy money policy of previous administrations, which would result in continued inflation, higher wage scales chasing higher prices up the spiral, with money constantly decreasing in value. This would, in substance, be robbing all of those who have saved, including those who bought Government bonds during the war. It would reduce the value of every life insurance policy, all annuities and retirement benefits, every savings and checking account, and, unfortunately, the same results which we are complaining of now would occur at any time that this progressive inflation was halted. If it were continued indefinitely, it would result eventually,

FLUCTUATIONS IN THE SELLING PRICE OF A TYPICAL SINGLE-FAMILY RESIDENCE 1921 TO THE PRESENT

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1921	—	57.5	59.8	59.8	60.2	60.4	60.7	60.4	59.9	59.9	59.6	59.5
1922	59.5	59.5	59.0	58.8	58.4	58.2	57.9	58.6	59.2	59.9	60.4	61.1
1923	61.6	62.0	62.8	63.4	63.6	63.5	63.4	63.4	63.5	63.8	64.2	64.4
1924	64.6	64.8	65.4	65.8	66.3	67.2	68.4	68.6	69.0	69.3	69.5	69.8
1925	70.1	70.5	70.5	70.6	71.0	71.3	71.3	72.2	72.5	72.5	72.7	72.9
1926	72.5	72.2	72.2	72.1	71.9	71.9	71.9	71.4	71.1	71.0	70.6	70.6
1927	70.7	70.9	70.7	70.7	70.9	71.0	71.0	71.1	71.3	71.3	71.1	71.1
1928	71.1	71.1	71.0	71.3	71.4	71.5	71.7	71.9	72.1	72.5	72.9	73.4
1929	73.7	73.8	73.9	73.7	73.3	72.7	72.2	71.7	71.1	70.5	69.9	69.1
1930	68.4	67.8	67.0	66.4	65.8	65.5	65.1	64.8	64.2	63.5	62.7	62.2
1931	61.5	60.8	60.4	59.6	58.8	57.6	55.7	53.8	51.9	50.0	48.1	46.2
1932	44.3	42 4	40.5	38.6	36.7	34.8	34.8	34.8	34.8	34.8	34.8	34.8
1933	38.1	38.1	38.1	38.1	38.1	38.1	41.4	41.4	41.4	41.4	41.4	41.4
1934	43.1	43.1	43.1	43.1	43.1	43.1	44.8	44.8	44.8	44.8	44.8	44.8
1935	42.1	42.1	42.1	42.1	42.1	42.1	39.4	39.4	39.4	39.4	39.4	39.4
1936	41.1	41.1	41.1	41.1	41.1	41.1	42.8	42.8	42.8	42.8	42.8	42.8
1937	41.4	41.4	41.4	41.4	41.4	40.1	40.1	40.1	40.1	40.1	40.1	46.8
1938	46.8	46.8	46.8	46.8	46.8	50.8	50.8	50.8	50.8	50.8	50.8	44.1
1939	44.1	44.1	44.1	44.1	44.1	42.8	42.8	42.8	42.8	42.8	42.8	42.8
1940	42.8	42.8	42.8	42.8	42.8	42.8	40.1	40.1	40.1	40.1	40.1	40.1
1941	40.1	40.1	40.1	40.1	40.1	40.1	41.4	44.1	44.1	45.5	45.5	46.8
1942	45.5	46.8	46.8	46.8	46.8	48.1	48.1	49.5	49.5	49.5	49.5	48.1
1943	48.1	48.1	48.1	48.1	49.5	49.5	50.8	50.8	50.8	50.8	50.8	50.8
1944	53.5	53.5	56.1	57.5	56.1	57.5	57.6	58.0	58.2	59.0	59.4	60.6
1945	61.4	62.3	62.7	63.6	64.8	66.2	67.1	68.0	69.9	71.7	73.5	75.3
1946	77.8	80.1	82.9	84.8	86.2	88.2	90.0	91.6	92.5	93.2	93.9	94.0
1947	93.6	93.6	93.2	93.6	94.4	94.5	94.5	94.9	95.9	96.4	97.3	98.7
1948	99.5	100.4	101.1	101.6	102.0	102.8	103.3	103.5	104.0	104.5	103.6	103.2
1949	102.7	102.1	102.9	103.1	102.8	102.4	102.4	102.5	101.9	101.7	102.1	102.1
1950	102.8	103.2	103.1	103.6	104.8	105.9	106.8	107.4	107.6	108.7	109.9	111.4
1951	113.0	113.8	113.9	115.0	115.6	116.0	116.6	117.0	117.8	118.6	118.7	119.1
1952	119.1	119.6	120.9	120.6	120.2	119.3	119.0	119.4	119.8	119.4	119.0	119.0
1953	118.6	118.9	118.7	117.9	117.6	118.7	118.7	119.0	119.5	119.7	120.6	120.1
1954	120.9	121.0	121.0	122.2	122.6	122.7	123.1	123.1	122.3	122.3	122.6	123.3
1955	122.9	122.6	122.7	122.9	123.5	123.4	123.8	123.9	125.0	125.1	125.1	125.2
1956	125.3	124.9	124.5	124.1	123.9	123.8	123.5	123.1				

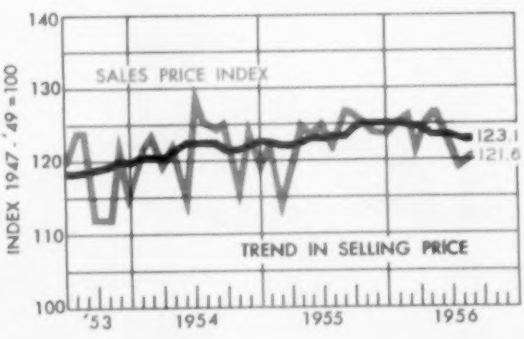
REAL ESTATE SALES PRICE COMPARISONS

With preceding month

-0.3%

With same month preceding year

- 0.6%



as it has in many countries in Europe, in a wild inflation, with a total destruction of the value of our money.

The Administration is showing both intelligence and tremendous courage in refusing to continue inflationary practices, even before election. We had anticipated that credit would be eased this last summer, primarily because this was an election year, and because we doubted whether any political party would decrease its chances of re-election by attempting to control a boom before November.

REAL ESTATE SALES

The table at the top of page 414 shows the fluctuations in the selling price of a typical residential building from 1921 to the present. The chart at the bottom of the page shows this information for the recent past.

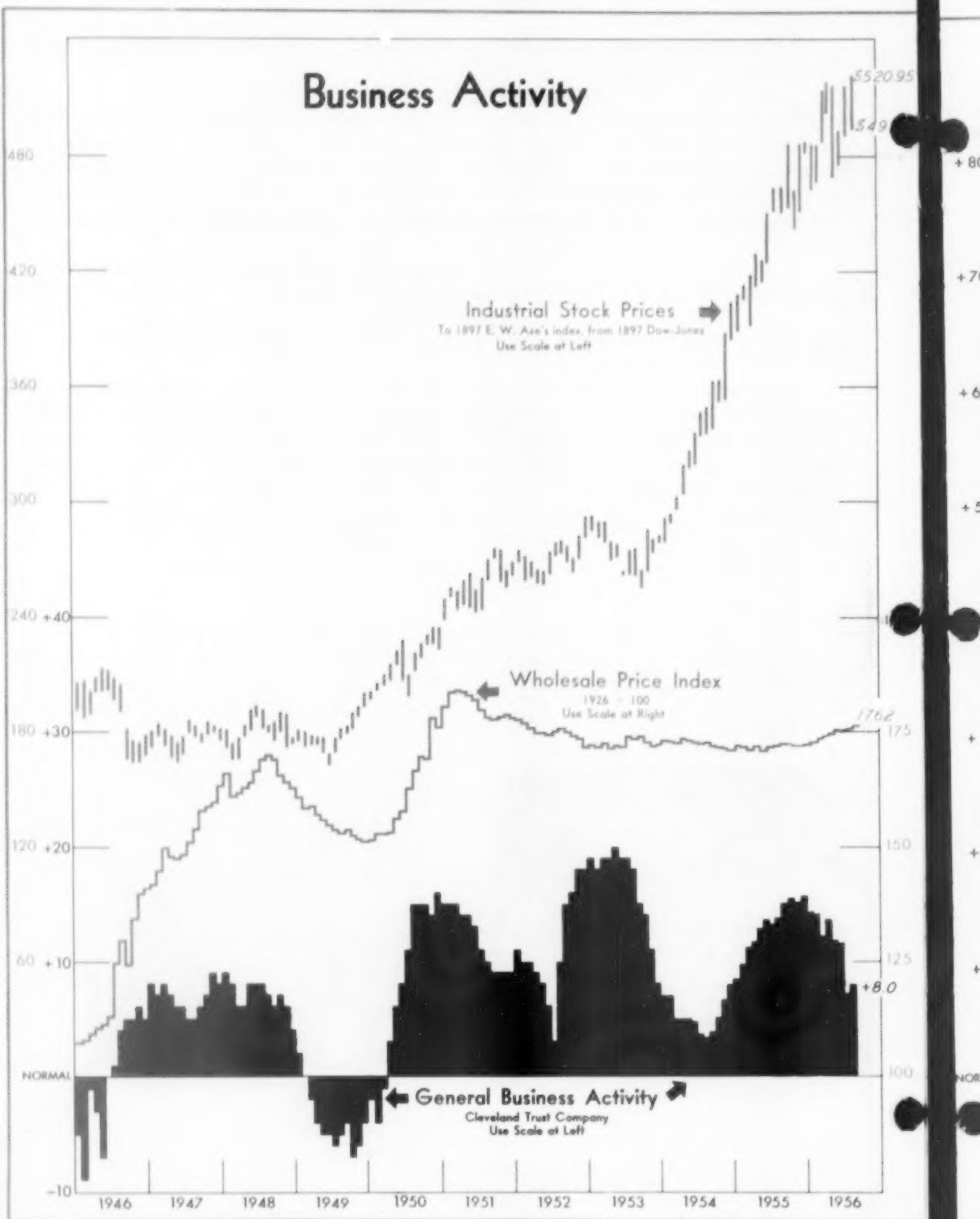
We have received numerous requests for the publication of this table, from which price fluctuations can be figured between any two dates since 1921. It will be noticed that the gradual decline in selling prices, which started slightly after the first of the year, has continued up to the present time. This is due primarily to the credit situation, since construction costs are still climbing, as shown by the increase in the cost of our standard 6-room frame house on page 417.

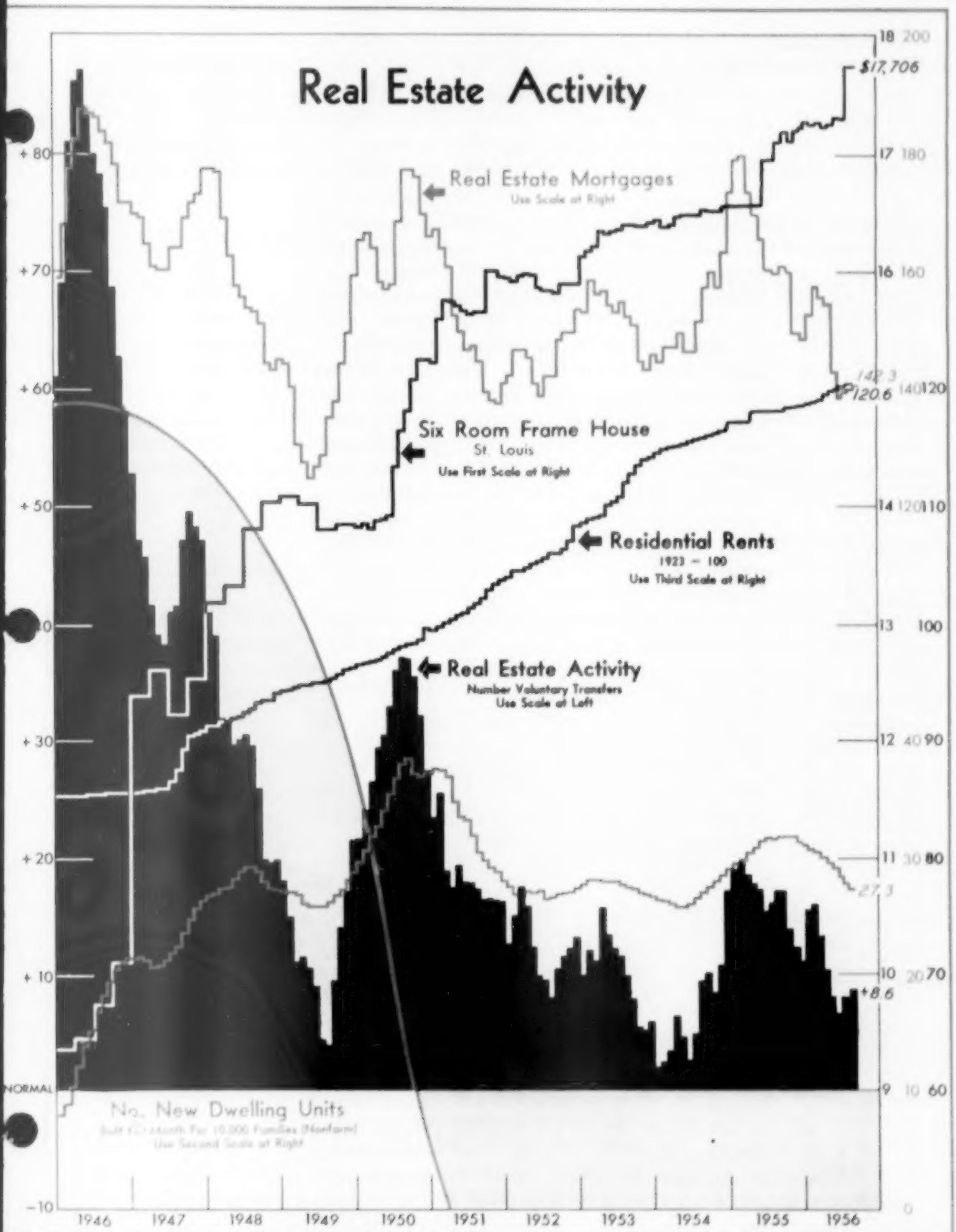
(cont. on page 419)

CONSTRUCTION COSTS OF RANCH HOUSES

STANDARD BRICK RANCH HOUSE
Content: 16,250 cubic feet
840 square feet
Attached garage - 200 square feet
Without garage - $12,330
($0.759 per cu. ft.; $14.68 per sq. ft.)
Garage - $922
($4.61 per sq. ft.)

CONTEMPORARY FRAME RANCH HOUSE
(Dry Wall)
Content: 12,285 cubic feet
1,170 square feet
Carport - 320 square feet
Without carport - $12,855
($1.05 per cu. ft.; $10.99 per sq. ft.)
Carport - $601
($1.88 per sq. ft.)


Business Activity
Industrial Stock Prices
To 1897 E. W. Axe's index, from 1897 Dow-Jones
Use Scale at Left
Wholesale Price Index
1926 = 100
Use Scale at Right
General Business Activity
Cleveland Trust Company
Use Scale at Left
$520.95
176.2
+8.0
480
420
360
300
240 +40
180 +30
120 +20
60 +10
NORMAL
-10
175
150
125
100
1946
1947
1948
1949
1950
1951
1952
1953
1954
1955
1956


Real Estate Activity
Real Estate Mortgages
Use Scale at Right
Six Room Frame House
St. Louis
Use First Scale at Right
Residential Rents
1923 = 100
Use Third Scale at Right
Real Estate Activity
Number Voluntary Transfers
Use Scale at Left
No. New Dwelling Units
Use Second Scale at Right
$17,706
142.3
120.6
27.3
+8.6
NORMAL
1946
1947
1948
1949
1950
1951
1952
1953
1954
1955
1956

RELATIONSHIP OF THE NUMBER OF VOLUNTARY SALES OF REAL ESTATE IN THE LAST 3 MONTHS TO THE CORRESPONDING 3 MONTHS OF 1955 FOR 81 CITIES

Rank	City	% Relationship 1956-55	Rank	City	% Relationship 1956-55
1	New Haven, Conn.	+35.8	41	Buffalo, N. Y.	-7.2
2	Richmond, Va.	+19.8	42	Los Angeles, Calif.	-7.2
3	St. Petersburg, Fla.	+17.0	43	Springfield, Ohio	-7.4
4	Youngstown, Ohio	+15.9	44	Savannah, Ga.	-7.5
5	Waterbury, Conn.	+15.8	45	Oakland, Calif.	-7.5
6	Allentown, Pa.	+11.4	46	Phoenix, Ariz.	-7.7
7	Terre Haute, Ind.	+9.4	47	Philadelphia, Pa.	-8.2
8	Baltimore, Md.	+6.1	48	Minneapolis, Minn.	-8.3
9	Hartford, Conn.	+4.8	49	Jacksonville, Fla.	-9.2
10	Topeka, Kans.	+3.9	50	Portland, Oreg.	-9.5
11	San Jose, Calif.	+3.5	51	Binghamton, N. Y.	-9.7
12	Fort Wayne, Ind.	+3.4	52	St. Louis, Mo.	-9.7
13	Springfield, Mo.	+3.0	53	Gary, Ind.	-10.6
14	Springfield, Mass.	+2.6	54	Detroit, Mich.	-10.7
15	Duluth, Minn.	+2.5	55	Cleveland, Ohio	-11.4
16	Portland, Maine	+2.5	56	South Bend, Ind.	-11.6
17	Elizabeth, N. J.	-0.1	57	Little Rock, Ark.	-11.9
18	Lowell-Lawrence- Haverhill, Mass.	-0.7	58	Kalamazoo, Mich.	-12.5
			59	Oklahoma City, Okla.	-12.6
19	Dallas, Tex.	-0.7	60	Grand Rapids, Mich.	-13.7
20	San Diego, Calif.	-0.9	61	Akron, Ohio	-15.5
21	Chicago, Ill.	-1.4	62	Nashville, Tenn.	-15.9
22	Newark, N. J.	-2.0	63	Tulsa, Okla.	-16.0
23	Worcester, Mass.	-2.2	64	Boston, Mass.	-16.6
24	Queens Co., N. Y.	-2.7	65	Milwaukee, Wis.	-17.2
25	Columbus, Ohio	-2.9	66	Nassau Co., N. Y.	-17.3
26	Dayton, Ohio	-3.1	67	Atlanta, Ga.	-17.6
27	Washington, D. C.	-3.4	68	Cincinnati, Ohio	-17.9
28	Chattanooga, Tenn.	-3.5	69	Des Moines, Iowa	-18.5
29	San Francisco, Calif.	-4.4	70	Seattle, Wash.	-19.1
30	Tacoma, Wash.	-4.4	71	Kansas City, Mo.	-19.3
31	Syracuse, N. Y.	-4.5	72	Memphis, Tenn.	-19.7
32	Bridgeport, Conn.	-5.5	73	San Antonio, Tex.	-20.1
33	Louisville, Ky.	-5.6	74	Evansville, Ind.	-20.8
34	Tucson, Ariz.	-5.9	75	Houston, Tex.	-22.1
35	Toledo, Ohio	-6.1	76	Flint, Mich.	-24.0
36	Fall River, Mass.	-6.2	77	Davenport, Iowa	-24.2
37	Trenton, N. J.	-6.2	78	Fort Worth, Tex.	-24.7
38	Jersey City, N. J.	-7.1	79	Salt Lake City, Utah	-30.7
39	Pittsburgh, Pa.	-7.1	80	Somerville, Mass.	-32.4
40	Denver, Colo.	-7.1		Winnipeg, Canada	-2.8

(cont. from page 415)

Everything else being equal, the values of existing buildings would react in a somewhat similar manner to the cost of the new buildings coming on the market. The construction cost figures at the bottom of page 415 bring up to date both the standard brick ranch and the contemporary frame ranch house. The brick ranch house is slightly lower than a year ago, the frame ranch house is slightly higher.

REAL ESTATE ACTIVITY

The table on the page opposite shows the ranking of 80 cities in the United States and 1 city in Canada for real estate activity for the past 3 months of 1956 in comparison with the corresponding 3 months in 1955. It is rather interesting that the first 9 cities on the list, those ranking considerably higher than a year ago in real estate activity, are all east of the Mississippi, with most of them fairly close to the coast. Dividing the United States into quarters, on the basis of the Mississippi River and the Mason and Dixon line, the cities in the northeast quarter made by far the best showing, and the cities in the southwest quarter made the poorest showing. The northwest quarter ranked second, and the southeast quarter ranked third. It is rather significant that of the 81 cities listed, in 65 real estate activity was below a year ago.

MORTGAGE ACTIVITY

Mortgage activity has been running very much under a year ago. In fact, present levels are the lowest since 1952. It now looks as if there is little hope of much revival in mortgage activity before next year. With the tremendous amount of construction activity, in fields other than residential, the demand for long-term money is very strong at rates above what most home owners have been accustomed to paying in the last 10 or 15 years. Historically, 5% money is not high. There have been many times in the past when mortgage interest rates averaged 6% or better, but during the period of rapid inflation, with relatively little total construction, the supply of money exceeded the demand, with the resulting low rates. This is now a thing of the past, and for some period ahead we are going to have to become accustomed to higher interest rates. These higher rates will stimulate saving, will discourage borrowing, and will tend to bring the market back into balance.

We have just received a study by Ernest M. Fisher and Chester Rapkin of the Mutual Mortgage Insurance Fund, published by the Institute for Urban Land Use and Housing Studies of Columbia University. This book is a rather thorough study of the adequacy of the reserves of the FHA.

This study would indicate that, even a major depression, would probably leave the FHA in sound condition, as the total outstanding balances on mortgages represent only 63% of the estimated current market value of the properties. Even though a large number of properties went through foreclosure, the FHA could take over the properties, issue debentures for the amount of the loan, and wait for a favorable time to resell. Under this procedure, it would be quite remarkable were the losses to exceed the more than $200 million now in reserves and surplus.

RESIDENTIAL RENTS

The index of residential rents is continuing upward at about the same rate which we have experienced since the end of 1953. This rate is slower than that experienced during the period of rent control. We think it highly probable that rents will continue to creep up during the next year or so, but at a very slow rate.

RESIDENTIAL CONSTRUCTION

The chart at the bottom of the page shows the annual rate at which private housing is being started in the United States. This last month, we started units sufficient to give us an annual rate of 1,110,000. This compares with a rate a month ago of 1,070,000, with the peak in December 1954 of 1,458,000, and with the all-time peak in August 1950 of 1,478,000. The current month is running 25% below the all-time peak, and 24% below the high of December 1954.

It now looks as if it would be quite difficult for private housing starts during 1956 to exceed 1,200,000.

Total construction, however, is proceeding at an accelerated rate, and will undoubtedly set a new all-time high in 1956.